Natural Gas Market Indicators

American Gas Association

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Reported Prices – prompt-month Henry Hub futures prices have fallen back slightly and are now below $2.85 per MMBtu, with a rising price point for winter 2015-16 contracts that tops out at about $3.20. This cyclical move higher in winter is typical of a market pricing higher demand during the winter months, of course. The market appears to be reflecting the characteristic of relative stability, however, which is not surprising given the context of strong supply dynamics addressed often in this report. But before getting to the natural gas fundamentals, oil prices have also slid a little in recent days just under $58 per barrel for West Texas Intermediate.

Weather – temperatures are off to a warm start – or at least, warmer than normal for the shoulder month of May. While aggregate cooling degree days are still relatively low, data indicated conditions that were 50 percent warmer than normal for the week ending May 16 then 4.0 percent warmer for the following week. Interestingly, it is the Mountain and Pacific regions that have been cooler than normal this spring rather than significantly warmer as they were for most of the past winter heating season. In addition, hurricane season will soon be upon North America. Colorado State University, in its annual hurricane and tropical storm forecast, anticipates below-average probability for major hurricanes reaching land along the US coastline and Caribbean this year, a forecast driven by the likelihood of an El Niño of moderate strength and a *cooler* tropical and subtropical Atlantic. The Gulf Coast has a 15 percent chance of (at least) one major hurricane making landfall, while average for the past century has been 30 percent. When and where a hurricane or tropical storm may strike ahead of the actual storm formation is impossible to predict, so we keep in mind that while these aggregate forecasts may show less activity this season, it only takes one storm to disrupt a region.

Working Gas in Underground Storage – since the beginning of March, net storage injections have exceeded a five-year average build by more than 60 percent despite overall higher demand driven, in large part, by electric power generation requirements. Production volumes on average are flowing in excess of 5 Bcf per day higher year over year, and the balance of flowing supply with higher demand is still building storage stocks at a rapid pace. The resulting eight straight weeks of natural gas storage build has put underground stocks within striking distance of the five-year average. Stocks are now 2.1 trillion cubic feet after a net addition of 92 Bcf for the week ending May 15, then 112 Bcf for the following week. This is only 0.8 percent behind the five-year average but 54 percent higher than last year.

Natural Gas Production – routine infrastructure maintenance has hampered production volumes in May. Domestic gas production fell from 73 Bcf to below 72 Bcf during the middle of May. Despite the relative slowdown, aggregate volumes are still well ahead of last year and every other year before that, for that matter. At 72.7 Bcf per day on average this month, dry production is 4.7 Bcf ahead of May 2014.

Shale Gas – a common theme seems to be emerging from panel discussions and analysis recently attended by the authors of this humble report of market indicators, regarding near-term expectations for domestic hydrocarbon production. It is that for natural gas, oil and other liquids (and even with reductions in drilling budgets attributable to the recent downturn in wellhead acquisition prices) production is still growing for many companies. The foundational premise explaining this observation by the analysts includes economic and technical efficiency as well as a continuum of technical learning and application of lessons learned to less conventional resource development. This is simply outpacing the rig fleet count, spending and other metrics as an influence on the economic development of these critical hydrocarbons.

Rig Counts – rotary rig counts for the US posted the smallest decline (6 rigs) last week, since crude oil prices collapsed and drilling activity began to contract last December. An average of 65 oil rigs per week were idled in January. So far in May the weekly average has been 14. Total rigs in operation 888 reflects a decline of 973 from one year prior. Natural gas rigs (at 223 rigs) appear to have leveled starting in early April following a decline from 355 last November and are accounting for 25 percent of drilling activity, currently.

Pipeline Imports and Exports – averaging 5.2 Bcf per day so far in May, natural gas *imports* from Canada are slightly above volumes recorded during May 2014 and about 400 MMcf per day more on average when compared to year to date totals. On the flipside, pipeline *exports* of natural gas to Mexico have continued to exceed 2 Bcf per day this year and are beginning to routinely push 3 Bcf per day. Exports to Mexico have averaged 2.8 Bcf per day in May and 2.5 Bcf per day year to date, which is up about 0.7 Bcf compared to last year.

LNG Markets – currently, LNG import volumes and sendout to the pipeline grid are minimal (near zero to 0.1 Bcf per day), and have been since the end of March.

Natural Gas Market Summary – the early pattern for natural gas markets this spring, as we move to summer, has been for prompt-month pricing at Henry Hub to strengthen to $3 per MMBtu or slightly more, then fall back to below $3, then cycle again. Testing that upper bound will now begin to depend on seasonal power generation loads and continued efforts to refill underground storage. This is, of course, the time of year when we normally begin to talk about the coming hurricane season and how that might influence markets through supply disruptions. Early prognostications of the June to November period generally point to less than normal activity for the Atlantic basin, which brings us back to watching market fundamentals – volumes of domestic production, cross border trade between the United States, Canada and Mexico and cooling loads, particularly in the Midwest, South, Middle Atlantic and Northeast, as the keys to understanding market pressures this summer.